FAMILY INCOME IN AMERICA

November 28, 1985

(The Joint Economic Committee, in preparation for its 40th Anniversary Symposium to be held in January, is compiling information on the performance of the U.S. economy since World War II. The following study is drawn from data on family income over the post-war period. It is expected that subsequent studies on this subject will be issued by the Committee based on information still being gathered.

(Among those who contributed to the development of the information contained in this report are Dr. Sheldon Danziger, Professor of Social Work and Director of the Institute for Research on Poverty, University of Wisconsin-Madison; Dr. Peter Gottschalk, Associate Professor of Economics at Bowdoin College; Dr. Frank Levy, Professor of Public Affairs, University of Maryland; and Dr. Richard C. Michel, Director of the Income Security and Pension Policy Center at The Urban Institute. The Congressional Research Service and the Congressional Budget Office have provided extensive technical assistance and helped in analysis of various pieces of data. The Office of Technology Assessment, working with the assistance of the U.S. Census Bureau and the Bureau of Labor Statistics, has -- at the request of the JEC and others -- developed an extensive new data base for the analysis of national income and living standards.

(The final draft of this report was prepared by the Joint Economic Committee Democratic staff which is responsible for its content.)

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Since World War II, median family income in the United States has increased by almost 90 percent. The post-war era has been widely viewed as one of unprecedented and, by and large, uninterrupted economic growth (See Figure 1).

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Americans are aware that the economy has not performed well during portions of the 1970's and 1980's. But general attitudes toward the economy tend to be associated more with how they perceive nationally averaged income than with the fact that the country went through some economic slumps.

Data collected by the Committee indicate, however, that since 1973 a dramatic reversal has taken place in the economic fortunes of most American families. This reversal has been obscured in most economic data because averages were used; these include the high levels of growth in after-tax income among top-income individuals. When the increased prosperity among those at the top is removed, a very different picture of American families emerges for the past 11 years.

From 1947 through 1973, a middle-income American family (a family with the median income) experienced an annual increase of nearly 4 percent in real income. Since 1973 the trend has stopped increasing and turned decidedly negative. The middle-income family lost more than 6 percent or about one-half a percent a year in real income during that 11-year period, 1973 through 1984. The total loss per family has been $1,724 or about $157 per year.

While the reversal that has taken place since 1973 has affected middle-income families both with and without children, it has been considerably more severe for families with children (See Figure 2). In 1984 families with children accounted for only 35 percent of all households, but comprised 56 percent of the population. The middle-income family with children lost $3,152 from 1973 through 1984, dropping from $28,988 to $25,836 in annual income.

If families with children are divided into five income groups (quintiles), each of the five groups lost ground between 1973 and 1985. The smallest loss occurred in the wealthiest income quintile; the greatest loss was in the lowest income quintile. The middle-income quintile of families with children lost almost 11 percent of real income between 1973 and 1985 (See Table 1).

TABLE I

Mean Income of Families with Children by Income Quintile
in Constant Dollars, 1973-1984
(1984 dollars)

	Mean Income of Quintile:					Mean of all Families
	1	2	3	4	5	
All Families With Children						
1973	9308	20,678	28,988	38,796	63,258	32,206
1979	8057	19,179	28,855	38,203	61,256	31,138
1984	6142	16,491	25,836	36,967	62,198	29,527
Percentage Change,						
1973-1984	-34.0	-20.2	-10.9	-4.7	-1.7	-8.3
1979-1984	-23.8	-14.0	-10.5	-3.2	+1.5	-5.2

This trend is particularly surprising in light of the fact that the period was one in which many women entered the work force and two-earner households grew rapidly among families with children. Between 1973 and 1985, the number of work force participants among families with children below the age of 17 grew by about 20 percent. For families with no children or children over the age of 17, it grew by about 10 percent. Perhaps most disturbing is that most of the decline in family income came during the last half of the period for families at all income levels except the top. For the middle-income quintile of families with children, virtually all of the loss in real income took place between 1979 and 1985. For the next to highest quintile, two-thirds of the real income loss took place during that period. Only in the top quintile was there a reverse in the downward 1973 to 1979 trend and an increase in family income between 1979 and 1985.

The trend not only affected families with children in each of the five income levels, but also in each racial grouping. In addition, the decline in income from 1973 through 1984 affected two parent families as well as single parent families (See Table 2).

TABLE II

MEAN INCOME OF ALL FAMILIES BY RACE AND PARENTAL STATUS

IN CONSTANT DOLLARS, 1973-1984

(1984 dollars)

Families with Children	WHITE	BLACK	HISPANIC
1973	33,859	20,708	23,280
1979	32,826	20,150	23,778
1984	31,298	18,504	21,663
Percentage Change			
1973-1984	-7.6	-10.6	-6.9
1979-1984	-4.7	-8.2	-8.9

	1973	1979	1984	1973-84	1979-84
All Two-Parent Families with Children	35,493	35,383	34,379	-3.1	-2.8
White	36,276	35,976	34,954	-3.6	-2.8
Black	27,040	28,645	28,096	+3.9	-1.9
Hispanic	26,247	27,539	25,777	-2.5	-6.4
All Female-Headed Families with Children	14,371	14,530	13,257	-7.8	-8.8
White	15,853	16,016	14,611	-7.8	-8.8
Black	11,619	11,710	10,522	-9.4	-10.1
Hispanic	12,175	11,223	10,560	-13.3	-5.9

Families with children appear to be working harder but getting significantly less in return. There are several factors that have contributed to this deterioration in the financial condition of middle-income American families since 1973.

First has been the generally poor performance of the economy during the period. During the post-war era, real economic growth as measured by the Gross National Product has averaged 3.4 percent. Between 1972 and 1985, it averaged only 2.7 percent. From 1972 through 1976, growth was 2.3 percent. From 1976 through 1980, growth was 3.2 percent, and from 1980 through 1984, growth was 2.7 percent (See Figure 3). While there were a number of good years during the period, there have been many poor and mediocre years providing little progress for any but a few small sectors of the economy.

Second, annual wages and salaries per worker (the primary source of income, particularly for families with children) fell by almost 1 percent per year or by a total of almost 10 percent over a ten year period ending in 1983 (See Figure 4).

Third, the increased participation in the work force of second wage earners may result in only modest increases in

income, because many second wage earners work less than full time at below median wages.

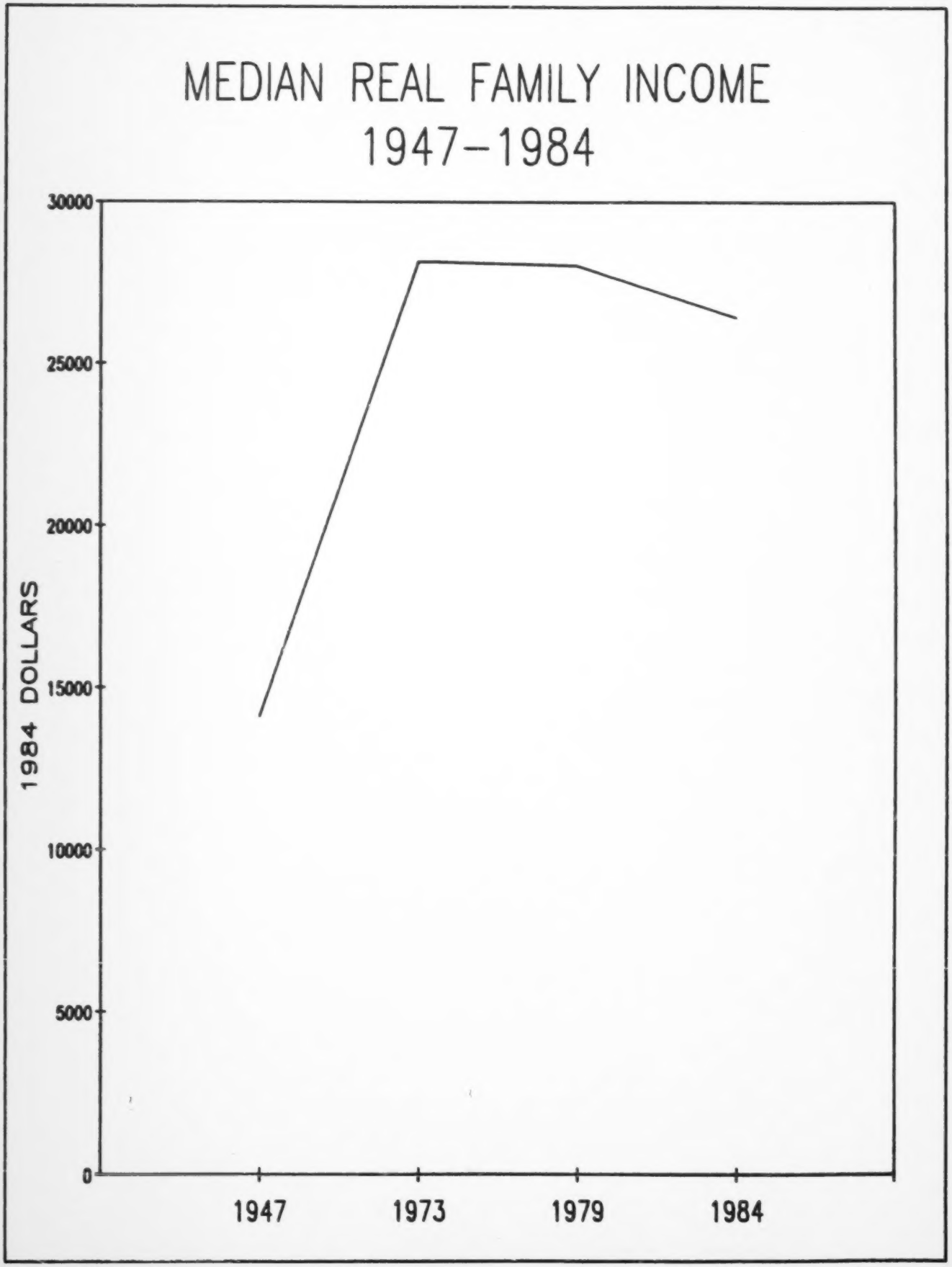
These three factors alone probably do not account entirely for the decline. A number of theories has been put forward and will be the subject of future study by the Committee.

The income data thus far examined establish a strong pattern indicating that the last third of the post-war era has been dramatically different for most families from the early part of the era. We have gone from a Nation where virtually all families could expect increased purchasing power to one in which few can maintain purchasing power even with increased participation in the work force.

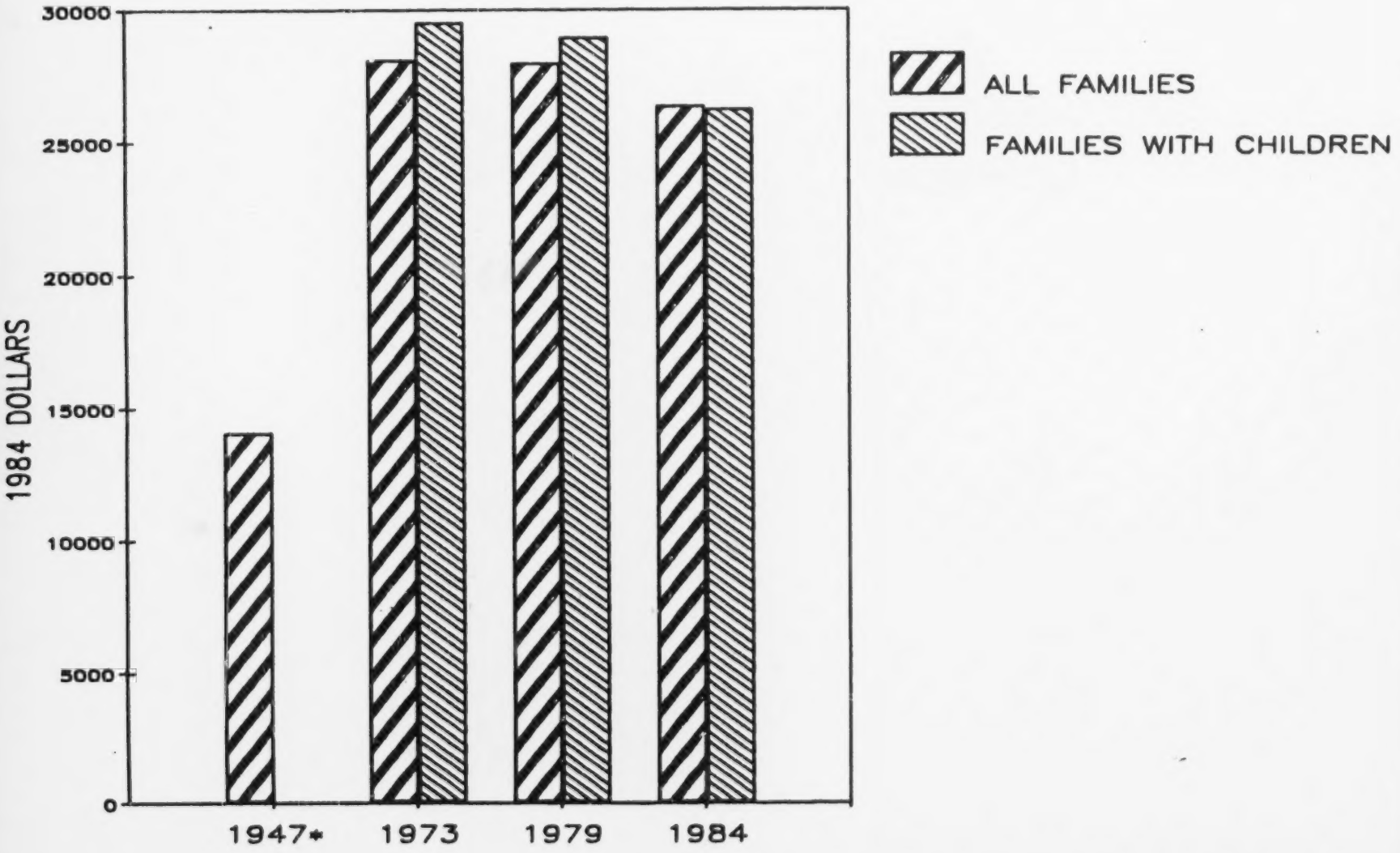
This trend would appear to have far reaching economic and social implications. It would indicate a dramatic decrease in the resources available for the care and support of most of the Nation's children. It would indicate a significant change in the ability of many families to meet the expectations of a middle-class lifestyle. It would indicate a considerable shift in the way families may view decisions such as whether to attempt home ownership or have children.

Further examination of the economic implications of this data is warranted.

FIGURE 1


MEDIAN REAL FAMILY INCOME
1947–1984
30000
25000
20000
15000
10000
5000
0
1984 DOLLARS
1947
1973
1979
1984

MEDIAN REAL FAMILY INCOME
1947—1984



* DATA FOR FAMILIES WITH CHILDREN NOT AVAILABLE FOR 1947

FIGURE 2

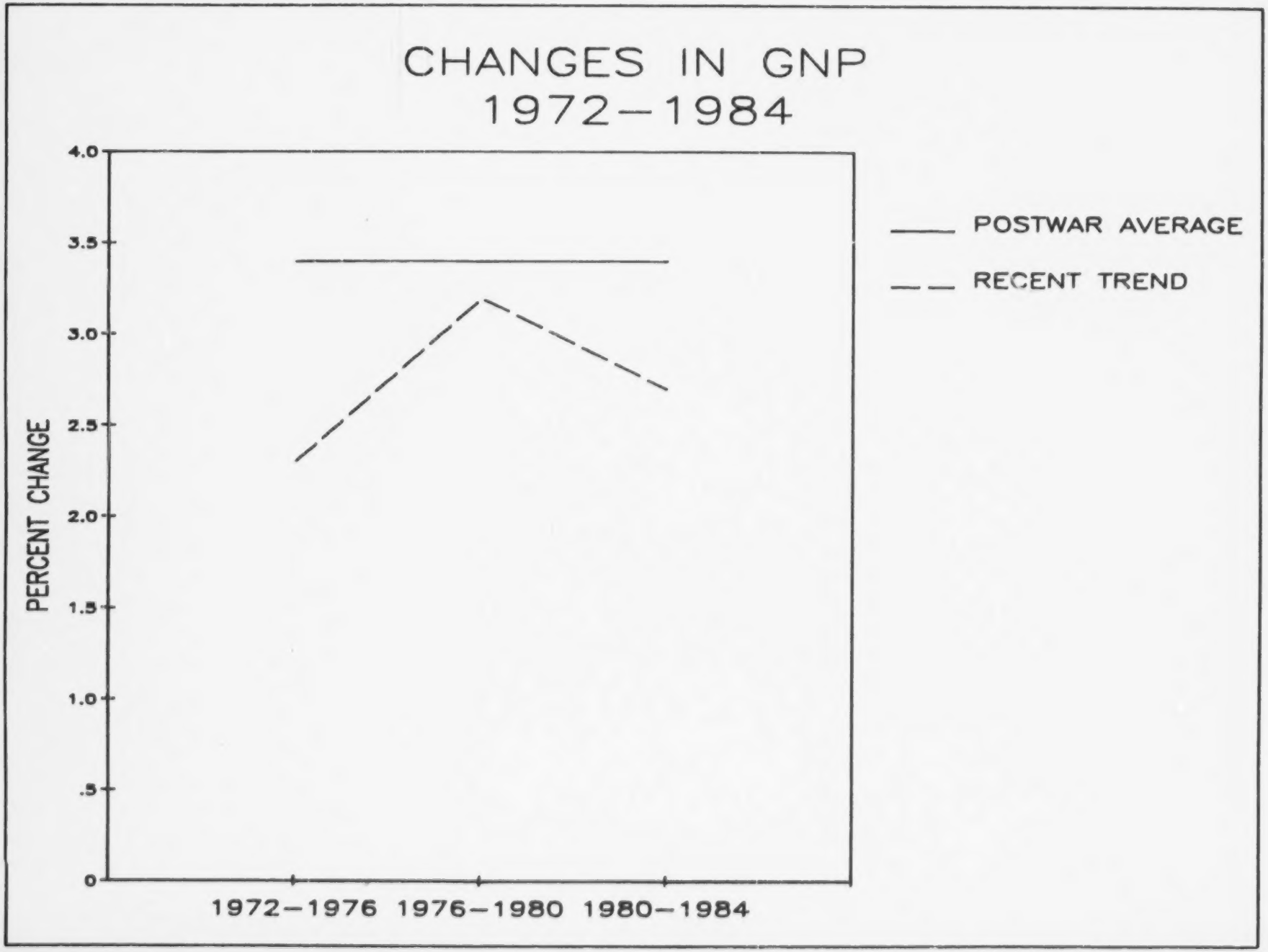

CHANGES IN GNP
1972–1984
4.0
3.5
3.0
2.5
2.0
1.5
1.0
.5
0
PERCENT CHANGE
1972–1976
1976–1980
1980–1984
POSTWAR AVERAGE
RECENT TREND

FIGURE 3

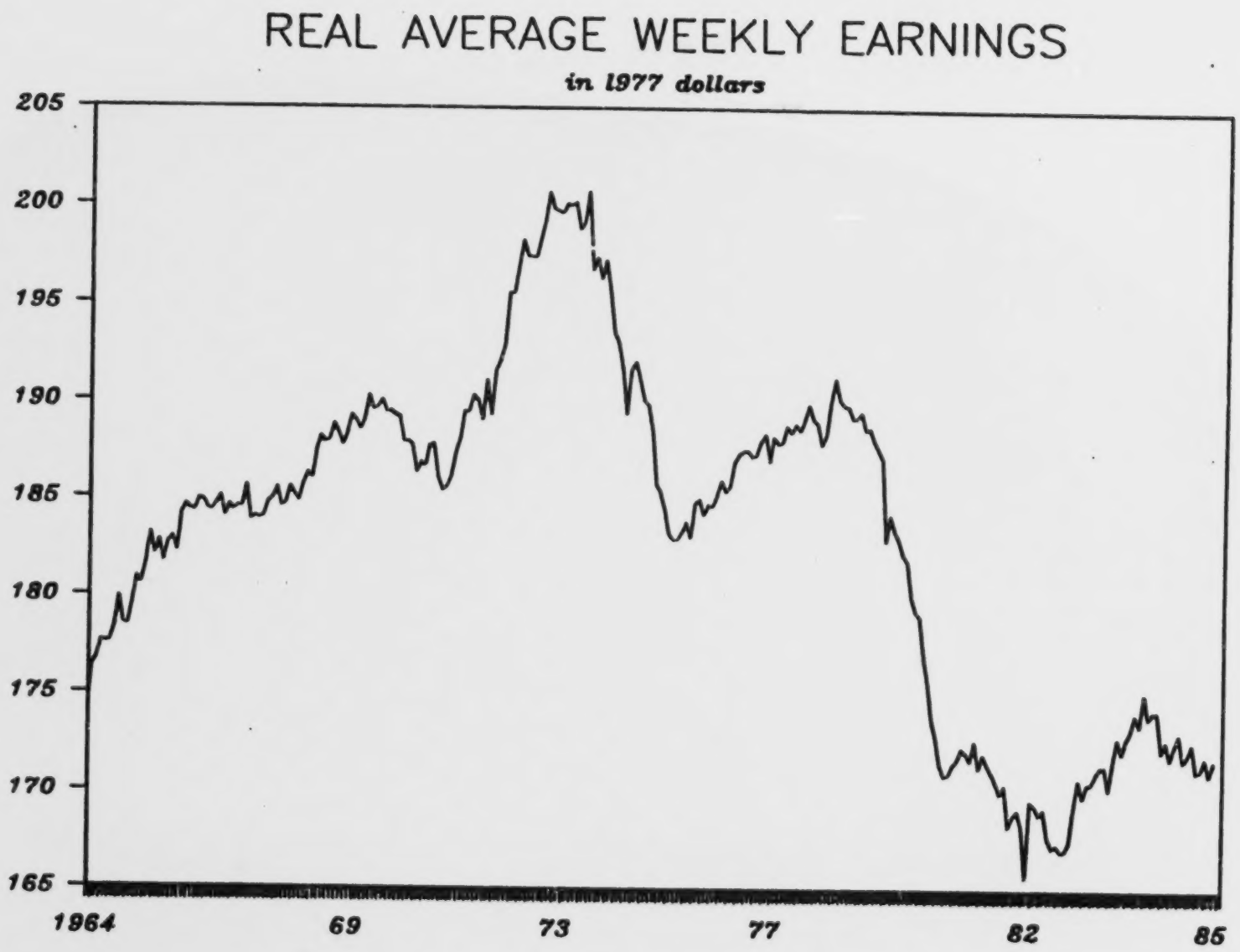

REAL AVERAGE WEEKLY EARNINGS
in 1977 dollars
205
200
195
190
185
180
175
170
165
1964
69
73
77
82
85

FIGURE 4